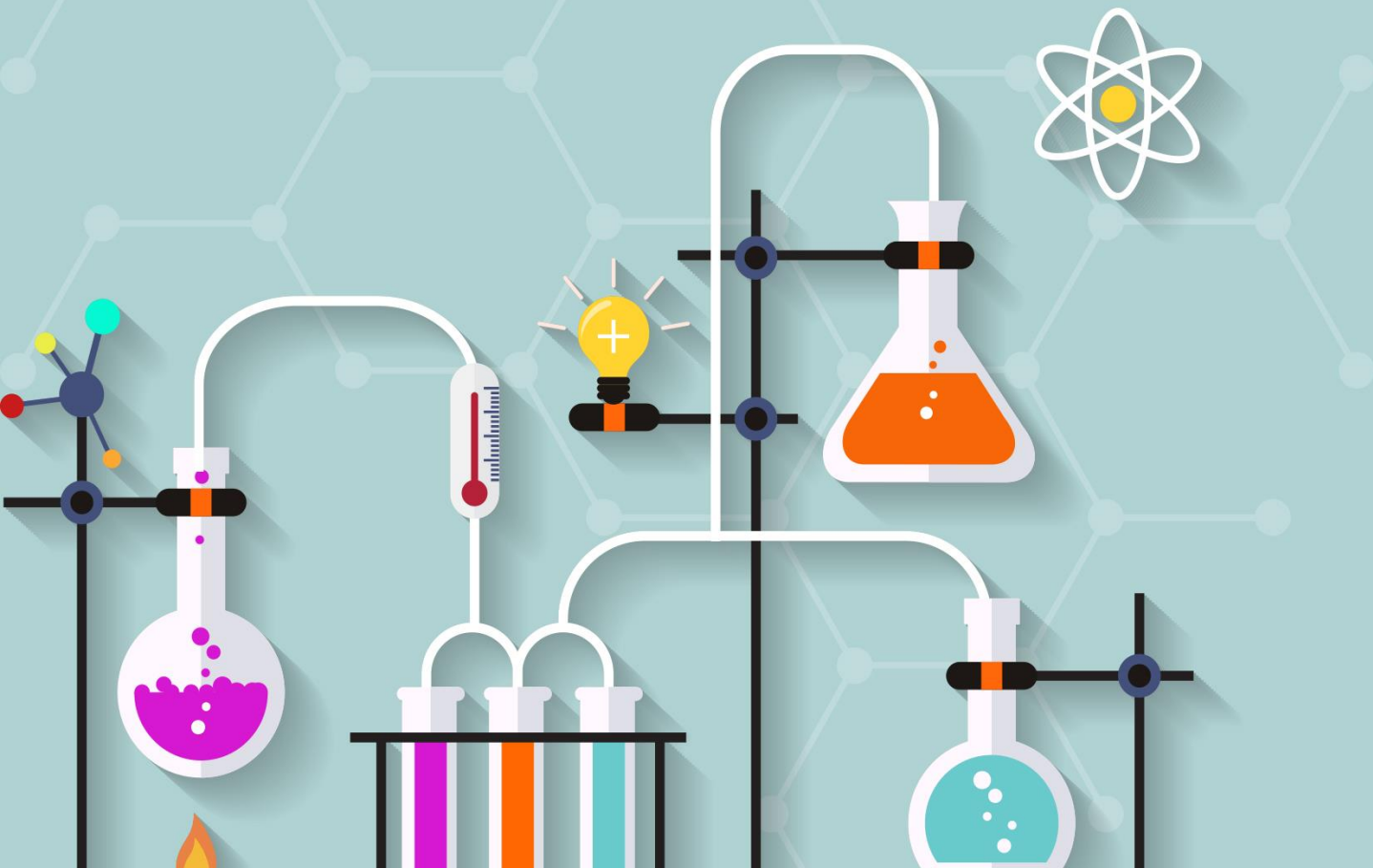


Tatva Chintan Pharma Chem Ltd.



Tatva Chintan Pharm Chem Ltd.

Developing healthy product mix to unfold rapid growth

CMP INR 2,498	Target INR 2,791	Potential Upside 11.7%	Market Cap (INR Mn) INR 51,230	Recommendation ACCUMULATE	Sector Specialty chemicals
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- For Q4FY22, Tatva Chintan Pharma Chem reported revenue of INR 985.3Mn (-9.3% yoy / -5.9% qoq) as against INR 1086.7Mn in Q4FY21 amid subdued demand in Structure Directing Agents (SDAs) led by continued semiconductor shortage during the quarter.
- EBITDA reported at INR 219.5Mn (-10.3% yoy / -7.8% qoq) as against INR 244.7Mn in Q4FY21. However, EBITDA margin sustained at 22.3% (-24bps yoy / -47bps qoq).
- PAT reported at INR 175Mn (-17.1% yoy / 23.2% qoq) as against INR 211.2Mn in Q4FY21. PAT margin reported at 17.8% (-166bps yoy / 402bps qoq). EPS stood at INR 7.90 as against INR 10.51 in Q4FY21 and INR 10.29 in Q3FY22.
- The final dividend of INR 2/share is recommended by board of directors which is subject to the approval of shareholders.

MARKET DATA

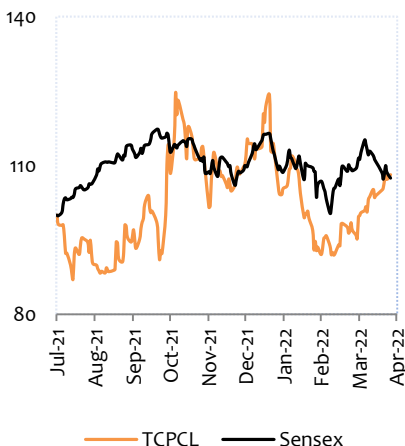
Shares outs (Mn)	22
Equity Cap (INR Mn)	221.7
Mkt Cap (INR Mn)	51,230
52 Wk H/L (INR)	2976/2001
Volume Avg (3m K)	27.2
Face Value (INR)	10
Bloomberg Code	TATVA IN

Key Financials

Particulars (INR mn)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
Revenue	2,632	3,004	4,336	4,999	6,880
EBITDA	550	657	1,082	1,175	1,830
PAT	378	523	959	963	1,509
PAT margin (%)	14.4%	17.4%	22.1%	19.3%	21.9%
EPS	18.81	26.02	43.25	43.43	68.06
P/E (x)	53.1x	96.0x	57.8x	57.5x	36.7x

Source: Company data, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	57,344
NIFTY	17,130

SHARE HOLDING PATTERN (%)

Particulars	Mar 22	Dec 21	Sep 21
Promoters	79.2	79.2	79.2
FIIIs	3.0	2.9	3.5
DIIIs	8.1	7.9	7.4
Others	9.7	10.1	9.9
Total	100.0	100.0	100.0

Revenue product mix to change owing to likely subdued demand of SDAs during H1FY23

- The semiconductor chips shortage issue has started since Q3FY22 which had an impact on SDAs segment and it was extended on account of further challenges amid Russia-Ukraine war during Q4FY22. In FY23, the flat growth is expected in SDA segment while other segments to follow the recent trend in preceding quarters. The SDA production has been continued to meet the expected pent up demand in future.
- Currently, Tatva Chintan has healthy product pipeline across all segments of which major products are expected to get commercialised within next 18-24 months. It is planning to launch new products under flame retardants which has an attractive market size of \$3Bn with a great opportunity.

Price transfer to customers maintained margin performance

- There has been a major increase in the fuel, shipping and packaging costs during H2FY22 which had a negative impact on company's margins for the year. Regardless of the fact, Q4FY22 operating and net margins were stable at 22.3% / 17.8% as compared with 22.5% / 19.4% in Q4FY21, respectively.
- The ongoing efforts of R&D team on green chemistry and continuous flow chemistry is likely to bring further improvement in overall margins in the upcoming years. We expect margins in the range of 25-27% by FY24E.

Valuation

Tatva Chintan has a product portfolio based on an integrated value chain aimed at higher margins. It has a healthy product pipeline and requires a capital investment worth INR 750Mn for the commercialization of these products within next 18-24 months. In FY22, revenue was outperformed and grew by 44.4% while PAT grew by 83.4% on yoy basis. Despite postponement of SDAs demand in the market, it has contributed 52% of overall revenue in FY22 followed by 23% / 1.3% / 24% from PTCs, Electrolyte salts and PASC segments, respectively. It has gained healthy business from overseas (more than 25 countries) 79% exports in overall revenue. We have revised our revenue estimates downwards on account of expected weak performance in SDA segment which has resulted in decline in our FY23E / FY24E EPS by 27% / 6%, respectively.

Currently, it is trading at TTM PE of 56.0x at CMP of INR 2,498. **We assign PE multiple of 41.0x to FY24E EPS of INR 68.06 to revise the target price at INR 2,791/share (Previous TP: INR 2,902) and retain ACCUMULATE rating on the stock with an upside of 11.7% at CMP.**

Tatva Chintan Pharm Chem Ltd.

Key Concall Highlights

New product pipeline:

- It has received approval from 2 MNC customers from pharma and agrochemicals space each which will be commercialized from current year.
- SDAs business** has observed very strong growth of 87% yoy in FY22. Currently, the large part of demand is contributed by auto emission control applications. The management expects weaker demand in SDAs in Q1-Q2 of FY23; however, underlying demand for SDAs remain stronger. It expects strong revival in demand with improvement in semiconductor chips availability.
- During FY21, it has received a formal approval from 2 large customers, commercial business has been negotiated with one of these customers and supply is expected to begin from Q2FY23. Supply to another customer is expected to begin from January 23, post the finalization of ongoing discussion.
- For electrolyte salts**, it has received a formal approval from a customer for the energy storage device application and it has been awarded with commercial supply opportunity for 2022. Additionally, it is in pilot scale approval with a new customer and it has also given an opportunity for an initial approval process with yet another customer.
- It has been observed that there is a steady growth in commercialization of super capacitor batteries for the energy storage devices application. The application of super capacitor batteries in EV and automobile applications is gaining traction. Also, the application of energy storage devices in renewable energy storage system is getting into commercialization. The management expects multifold growth in this segment.
- Under PASC segment**, one of the products has brought in full scale commercialization and it expects good volume growth during the year. There was a product in approval since 2020 which has now received the final approval and it is expected to commercialize in Q2FY23.
- For a product based on zeolites - catalyst continuous flow chemistry to achieve superior quality where the development is completed and submitting samples in few days. Commercial supply to take ~18 months for this product.
- The development work of monoglyme continuous flow and equipment designing is completed for pilot scale. It has a target to sell 3K MTPA of high purity monoglyme which has a global market of 18K MTPA. The new product for metal extractions has been developed and samples are submitted and it expects to start the commercial supply from Q4FY23.
- It is progressing in the development of continuous flow applications in 2 products. It is in the development stage of solvents in to EV battery application area using continuous flow chemistry. It has also received an opportunity to develop 2 more product from agrochemical segment which involves **continuous flow chemistry**.
- The development team has successfully completed pilot scale trial of a product under **flame retardant category (80K-100K MT per month)**. It expects customer approval for these products from June and it intends to report the category under a separate segment. Flame retardants has a huge market of ~\$1Bn which has application in electronics.

Margins

- During the quarter, few customers absorbed the increase in freight costs and raw material prices which has enabled decent margin performance in Q4FY22.
- On an annual basis, the freight costs increased from 3.7% to 7.6% of revenue while fuel costs increased from 3.0% to 6.2% of revenue and packaging costs increased from 1.7% to 3.1% of revenue.
- SDAs segment is the largest contributor to EBITDA margins followed by the segments PASC and electrolyte salts and eventually followed by flame retardants and PTCs segments.

Other Key points:

- It has improved its 'Together for Sustainability' score from 54% to 78% in FY21 and it has achieved 87% score in FY22.
- The new manufacturing facility is expected to be commissioned by Dec'22 and additional capex worth INR 750Mn is required for the commissioning of some new products.

Key Risks:

- Changes in product mix may have an impact on company's margin performance.
- Challenges faced in SDAs demand may get extended on account of semiconductor chips availability issues that may have a negative impact on company's revenue growth.

Tatva Chintan Pharm Chem Ltd.

Q4FY22 and FY22 Financial Performance

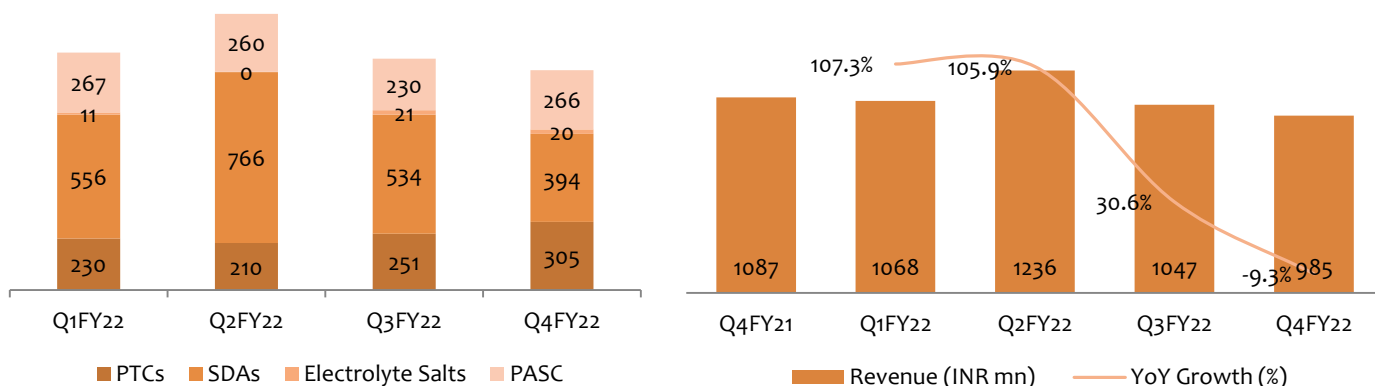
Particulars (INR mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue from operations	985.3	1,086.7	-9.3%	1,046.7	-5.9%	4,336.5	3,003.6	44.4%
Cost of Materials consumed	627.6	480.0	30.8%	713.0	-12.0%	2,544.9	1,509.1	68.6%
Purchase of Stock-in-trade	7.3	11.6	-36.9%	7.8	-6.3%	36.8	25.4	45.0%
Changes in Inventories	-237.5	82.4	-388.1%	-269.0	-11.7%	-635.3	-40.6	1466.0%
COGS	397.4	574.0	-30.8%	451.9	-12.0%	1,946.4	1,493.9	30.3%
Gross Profit	587.9	512.7	14.7%	594.8	-1.2%	2,390.1	1,509.7	58.3%
GPM	59.7%	47.2%	1249bps	56.8%	283bps	55.1%	50.3%	485bps
Employee cost	82.5	68.9	19.7%	82.2	0.3%	308.1	241.3	27.7%
Other Expenses	285.9	199.0	43.6%	274.5	4.1%	999.6	611.3	63.5%
EBITDA	219.5	244.7	-10.3%	238.1	-7.8%	1,082.4	657.0	64.7%
EBITDA Margin	22.3%	22.5%	-24bps	22.7%	-47bps	25.0%	21.9%	309bps
Depreciation & amortization	21.5	17.8	21.0%	20.8	3.5%	81.8	67.3	21.5%
EBIT	198.0	226.9	-12.7%	217.3	-8.9%	1,000.6	589.7	69.7%
Other Income	3.5	25.9	-86.3%	47.2	-92.5%	88.9	59.3	49.9%
Finance Cost	11.8	10.5	13.0%	9.9	19.5%	48.3	42.1	14.9%
EBT	189.8	242.4	-21.7%	254.7	-25.5%	1,041.2	607.0	71.5%
Tax expense/(credit)	14.7	31.2	-53.0%	26.6	-44.9%	82.5	84.3	-2.2%
PAT	175.1	211.2	-17.1%	228.1	-23.2%	958.7	522.6	83.4%
PAT Margin	17.8%	19.4%	-166bps	21.8%	-402bps	22.1%	17.4%	471bps
EPS	7.90	10.51	-24.9%	10.29	-23.2%	43.25	26.02	71.4%

Source: Company data, KRChoksey Research

Tatva Chintan Pharm Chem Ltd.

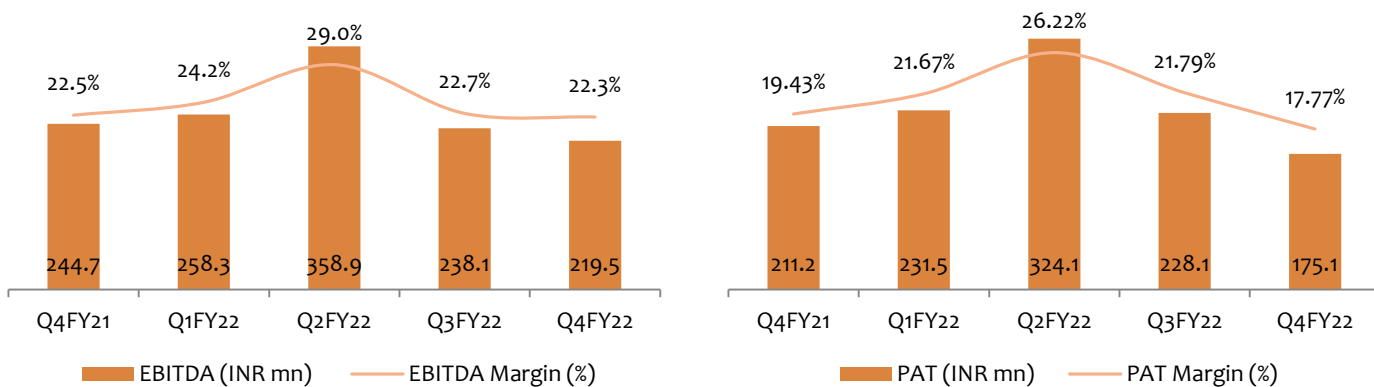
QUARTERLY FINANCIAL PERFORMANCE

Topline Performance: change in product mix led to sequential de-growth (SDAs contributed 40% in Q4FY22 v/s 51% in Q3FY22)



Source: Company data, KRChoksey Research

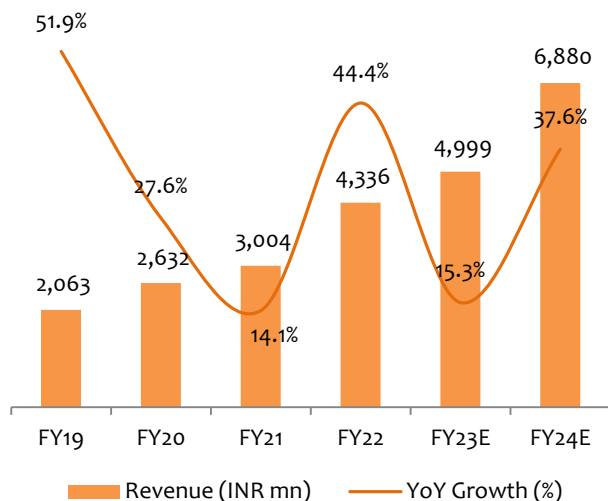
Margin Performance: support from few customers with regards to increased operational costs maintained EBITDA margins for Q4



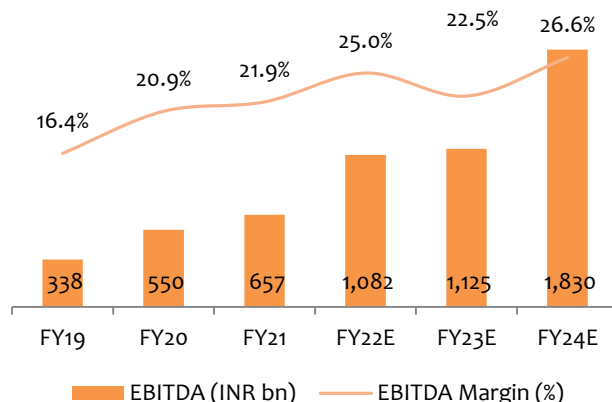
Source: Company data, KRChoksey Research

Tatva Chintan Pharm Chem Ltd.

Revenue is expected to grow at 16.6% CAGR during FY22-24E

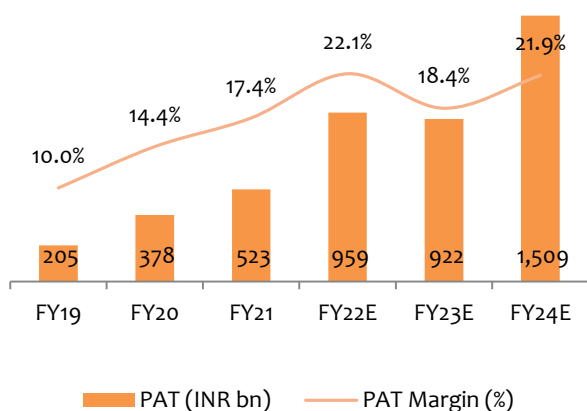


EBITDA is expected to grow at 30% CAGR during FY21-24E



Source: Company data, KRChoksey Research

PAT is expected to grow at 45% CAGR during FY21-24E



Source: Company data, KRChoksey Research

Tatva Chintan Pharm Chem Ltd.

KEY FINANCIALS

Income Statement (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenues	4,336	4,999	6,880	4,336	4,999
COGS	1,946	2,299	3,089	1,946	2,299
Gross profit	2,390	2,699	3,791	2,390	2,699
Employee cost	308	375	516	308	375
Other expenses	1,000	1,150	1,445	1,000	1,150
EBITDA	1,082	1,175	1,830	1,082	1,175
Depreciation & amortization	82	92	102	82	92
EBIT	1,001	1,083	1,728	1,001	1,083
Interest expense	48	60	72	48	60
Other income	89	152	185	89	152
PBT	1,041	1,174	1,840	1,041	1,174
Tax	82	211	331	82	211
PAT	959	963	1,509	959	963
EPS (INR)	43.25	43.43	68.06	43.25	43.43

Source: Company data, KRChoksey Research

Balance Sheet (INR mn)	FY20	FY21	FY22	FY23E	FY24E
Property, plant and equipment (PPE)	992	1,085	1,279	1,575	1,734
Right-of-use assets	119	118	314	417	525
Capital work-in-progress	49	98	515	472	520
Other intangible assets	1	1	3	0	0
Other non-current assets	2	3	5	5	7
Total non-current assets	1,162	1,306	2,224	2,470	2,786
Inventories	636	720	1,700	1,506	1,696
Trade receivables	496	907	566	794	1,282
Cash and bank balance	108	53	1,770	2,516	3,356
Loans	17	1	2	100	138
Other current assets	57	131	288	255	281
Total current assets	1,327	1,843	4,359	5,220	6,820
TOTAL ASSETS	2,489	3,148	6,583	7,690	9,606
Equity share capital	80	201	222	222	222
Other equity	1,097	1,459	4,509	5,414	6,879
Total equity	1,177	1,660	4,731	5,636	7,100
Borrowings	387	268	131	131	131
Long term provisions	1	1	2	2	3
Deferred tax / other non current liab	45	35	0	0	0
Total non-current liabilities	436	308	138	139	142
Borrowings	405	635	1,068	1,068	1,068
Trade payables	316	475	445	548	848
Other financial liabilities	117	1	4	4	6
Other current liabilities	37	62	185	278	417
Provisions	1	1	2	2	3
Current tax liabilities (Net)	0	7	10	15	22
Total current liabilities	877	1,180	1,714	1,915	2,364
TOTAL EQUITY AND LIABILITIES	2,489	3,148	6,583	7,690	9,606

Source: Company data, KRChoksey Research

Tatva Chintan Pharm Chem Ltd.

Cash Flow Statement (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Operating Cash Flow	253	195	204	1,202	1,375
Investing Cash Flow	(402)	(206)	(1,968)	(474)	(590)
Financing Cash Flow	100	(46)	2,350	(210)	(219)
Net Inc/Dec in cash equivalents	(49)	(57)	585	518	567
Closing Balance Cash & Cash Equiv.	108	51	637	1,154	1,721

Source: Company data, KRChoksey Research

Key Ratios (%)	FY20	FY21	FY22E	FY23E	FY24E
Margins and Return Ratios (%)					
EBITDA Margin (%)	20.9%	21.9%	25.0%	23.5%	26.6%
Net Profit Margin (%)	14.4%	17.4%	22.1%	19.3%	21.9%
RoE (%)	32.1%	31.5%	20.3%	17.1%	21.2%
ROA (%)	15.2%	16.6%	14.6%	12.5%	15.7%
RoCE (%)	32.0%	33.0%	22.4%	21.4%	26.4%
Per Share Data					
EPS	47.0	26.0	43.3	43.4	68.1
DPS	1.8	5.0	2.0	2.0	2.0
BVPS	146.5	82.6	213.4	254.3	320.3
Growth (%)					
Revenue	27.6%	14.1%	44.4%	15.3%	37.6%
EBITDA	62.6%	19.6%	64.7%	8.5%	55.8%
PAT	84.0%	38.3%	83.4%	0.4%	56.7%
EPS	84.0%	-44.7%	66.3%	0.4%	56.7%
Valuation (x)					
P/E	53.1	96.0	57.8	57.5	36.7
P/BV	17.1	30.2	11.7	9.8	7.8
Liquidity					
Debt/Equity	0.7	0.5	0.3	0.2	0.2
Current Ratio	1.5	1.6	2.5	2.7	2.9
Debtor Days	69	110	48	58	68
Inventory Days	88	88	143	110	90
Creditors Days	44	58	37	40	45
Working Capital Days	113	140	153	128	113

Source: Company data, KRChoksey Research

Tatva Chintan Pharm Chem Ltd.

Tatva Chintan Pharma Chem Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
26-Apr-22	2,498	2,791	ACCUMULATE	Buy	More than 15%
19-Jan-22	2,610	2,902	ACCUMULATE	Accumulate	5% – 15%
26-Oct-21	2,310	2,620	ACCUMULATE	Hold	0 – 5%
1-Oct-21	2,150	2,379	ACCUMULATE	Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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